

RELATIONSHIP MARKETING IN THE PHARMACEUTICAL MARKET – ANALYSIS OF THE HUNGARIAN CASE

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Abstract

The paper begins with an introduction of the new trends of pharmaceutical marketing focusing on the role of relationship marketing. Then it gives a short overview about the theoretical background of relationship marketing. It matches the different relationship marketing theories, and investigates the relationships in the pharmaceutical market focusing on the Hungarian hospital market. The paper reports about an empirical study of hospitals' drug procurement in Hungary. The results support the improvement of the relationship marketing activity of pharmaceutical companies.

Keywords: relationship marketing, pharmaceutical market, hospital market.

1. Introduction

The new trends of pharmaceutical marketing are effected by the trends of the pharmaceutical industry itself. The number of new innovative drugs is less and less in connection with the increasing R&D costs (SZALKAI et al., [14]). The development cost of a new drug (including the research cost of the unsuccessful substances) is around 800 million USD (DIMASI et al., [5]). According to industry experts, R&D is no longer the industry's driving force for growth (BROWN, [2]). Even if the new drug is more effective and has less side effect (this is the pivotal element of drugs' quality) than the other ones available in the market that is not the only factor which determines its success. To remain profitable, for a drug producer, developing its marketing activity may be the key of success.

Nowadays, more than 60% of the marketing costs of pharmaceutical enterprises account for the communication with physicians (HARMS et al., [8]). The role of physicians in deciding the therapy is still dominant, but in some areas (OTC market, patient groups) patients have more and more power to choose between the products. Other important target customers are the pharmacists, hospitals, wholesalers, governmental forces, etc. Governments try to stop the rapidly growing medical expenditures, so affordable drugs have competitive advantage over the 'only' effective drugs. In the USA for example a price comparison website is planned to be launched to give information about drug prices (SCRIP, [12]). Under the

pressure of these new challenges pharmaceutical marketing has to focus not only on the traditional target customers (physicians, patients), but on other customers, stakeholders as well, already in the development phase of a new drug. Pharmaceutical marketing has become a multidimensional task, which integrates Key Account Management, Service Marketing, Economical Marketing and Political Marketing (HARMS et al., [8]) in order to be sure that the new product will be successful.

It contributes to the actuality of the topic, that not only in the pharmaceutical market, but generally the capital of partnership becomes more valuable.

2. Relationship Marketing Theories in Brief

In the marketing literature relationship marketing became popular in the 1990s. The term relationship marketing has different meanings and it has continuously changed over the years. According to MÖLLER et al. [10] there is no developed theory of relationship marketing, only a variety of descriptions and of theories exists, so it is not considered to be a discipline yet. In a narrow interpretation it is very close to database marketing or aftermarketing, where its basic goal is customer retention. In a broader term relationship marketing is more strategic: instead of manipulating the customers they are involved into the relationship (PARVATIYAR et al., [11]). This strategic way of thinking is in connection with the newest marketing concepts, namely that the enterprises should focus more on their customer portfolio instead of on their product portfolio (KOTLER et al., [9]).

The different approaches of relationship marketing can be classified according to different aspects:

1. The most obvious difference between the theories is the place where they were born: in the USA or in Europe. The different ways of thinking derives from the different buying behaviour of organizations. One of the most significant representative of the European school is the IMP (Industrial Marketing and Purchasing) Group.
2. Experts distinguish 3 levels of relationship marketing. On the *concept* level researches are made mostly about the measurement of relationship's performance. On the *model* level investigation goes down to the depth of the relationship, researchers try to answer the question how the relationships work. Examples for this model level approach are the interaction model, or the key account management model. According to the third approach relationship marketing is about developing and managing successful relationship marketing programs. The relationship marketing *process* consists of four subprocesses: formation process, management and governance process, performance evaluation process, and relationship evolution or enhancement process (PARVATIYAR et al., [11])
3. There are theories on the basis of the parties in the supply chain involved in the relationship. Relationships can be examined between buyer and seller (it is the case most often analysed), or buyer and buyer, or seller and seller, etc.

4. On the basis of the exchange characteristics a big variety of theories exists. According to the customer type we can distinguish between consumer relationships and interorganizational relationships (MÖLLER et al., [10]). Nowadays – thanks to thinking in networks – relationships can be analysed not only between two parties, but as partnerships in a network of enterprises. Interactivity can also be an aspect of relationships. In early studies active seller and inactive buyer were in the focus of the studies, interactive relationships have even more specialities to examine. In consideration of the dimension of time the characteristics of the relationships differ, if it is a short term or a long term relationship.

The overall purpose of relationship marketing is to improve marketing productivity and enhance mutual value for the parties involved in the relationship (PARVATIYAR et al., [11]). Experts of the IMP Group identified three different types of relationship marketing programs: continuity marketing, one-to-one marketing, and partnering programs. The basic aim of *continuity marketing programs* is to retain customers and increase loyalty (Bhattacharya, 1998* *cit in* PARVATIYAR, [11]). *One-to-one marketing programs* are aimed at meeting and satisfying each customer's needs uniquely and individually. *Partnering programs* involve partnering relationships between customers and marketers to serve end-user needs. *Table 1* collects the program types which can be imagined according to the customer type.

Table 1. Types of relationship marketing programs

Program Type	Customer Type		
	Individual Consumers	Distributors/ Resellers	Institutional Buyers (Business to Business)
Continuity marketing	loyalty programs	continuous replenishment and ECR* programs	special supply arrangements (e.g., JIT)
Individual marketing	data warehousing and data mining	customer business development	key account management
Comarketing/ partnering	cobranding	cooperative marketing	joint marketing and codevelopment

Source: PARVATIYAR [11], p. 19.

*ECR = efficient consumer response

In the next two sections we will focus on two relationship models which are relevant in relation with the pharmaceutical market.

2.1. The Interaction Model of Buyer-Seller Relationships

In the interaction model the relationship of two organizations – the buyer and the seller – is analysed. According to this model (*Fig. 1*) the relationship corresponds to series of interactions between the parties.

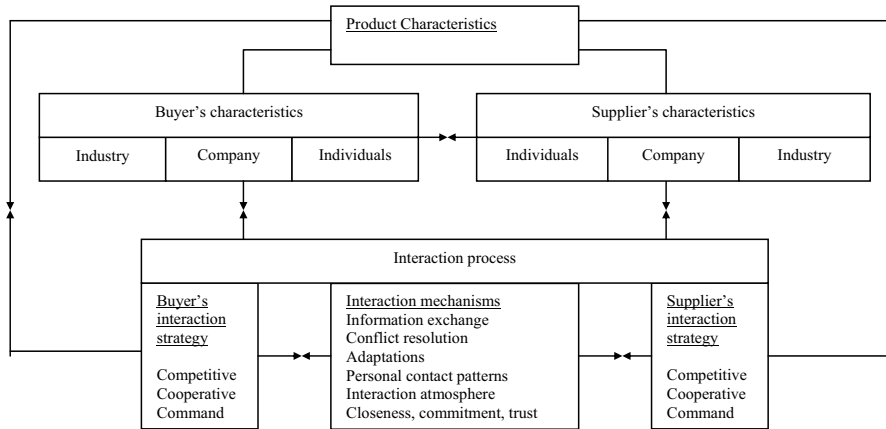


Fig. 1. Interaction model of buyer-seller relationship (*Source:* simplified scheme of CAMP-BELL [4], p. 268.)

The interaction model is based on the following statements (Ford, [6]):

1. Both buyers and sellers are active participants in the market, both of them make efforts to find the suitable partner in order to achieve their goals.
2. These relationships are long term, close and involving a complex pattern of interactions between and within each organization. It is more than a simple sale or purchase.
3. The links between buyer and seller often become institutionalized into a set of roles that each party expects the other to perform. Adaptations often occur when one of the parties makes modification in the product, in financial arrangements, or in inventory routines, etc.
4. The interaction model assumes continuous supply of the products.

The whole interaction process is embedded in the interaction environment. The environment has several aspects, like the market structure, dynamism, internationalization, position in the manufacturing channel, the social system (FORD, [?]). In the business market the buyer's involvement in the product development process has also an effect on the interaction. In the pharmaceutical market the market characteristics (strict regulations) and the product's special characteristics have dominant impact on the relationships.

2.2. *The Key Account Management (KAM) Model*

The key account management model is based on the customer portfolio of the enterprise. A very detailed overview about the customer portfolio is presented by FORD [7]. He distinguishes 9 groups of customer relationships according to their contribution to the company's success, according to the risks laid in them, to the needed resources and to their impacts on the other relationships of the firm. The enterprise should make decisions about the strategic importance of each customer.

Strategic importance of customers can be determined using sales volume, future potential, prestige, etc. (FIOCCA, 1982* *cit in* CANNON et al, [3]). According to CESPEDES (1995* *cit in* CANNON et al., [3]) key account is a customer who '(a) purchases a significant volume as a percentage of a seller's total sales, (b) involves several people in the purchasing process, (c) buys for a geographically dispersed organization, and (d) expects special attention such as logistical support, inventory management, price discounts, and customized applications'. Others define key accounts as 'customers that have strategic importance to the seller, purchase a large volume from the seller, and have the potential to lower the seller's costs' (KRAPFEL et al., 1991* *cit in* CANNON et al., [3]). These numerous characteristics can lead to different approaches of key customers.

3. Relationship Marketing in the Pharmaceutical Market

In this paper we discuss relationships with two very important participants in the pharmaceutical market. First the physicians then for a closer look the hospitals will be analysed from the marketing point of view.

3.1. *Physicians as Customers*

As it was mentioned in the introduction part, physicians are the most important target customers for the pharmaceutical enterprises. Compared to the traditional marketing concept, physicians are not the end consumers of the products, but their role is more important than that of the patients, because in most of the cases they induce the demand of drugs. For this reason relationship marketing should be analysed toward this target group.

In this case the definition of key customer changes: we can not talk about exact sales, but the initiators of sales. Sometimes the target customer is not the physician who writes prescriptions, but the opinion leaders who influence their colleagues to do so (TSANG, [15]). Nowadays to reveal the prescription behaviour of physicians is the key task for the pharmaceutical companies. The data about the prescriptions from the past and the information about the wants, needs, motivations of the practice can become a competitive advantage for the company that understands how to use it in driving their marketing efforts (VANDERVEER, [16]). Pharmaceutical sales

and marketing analysts realized that the success of a brand depends mostly on the prescribing behaviour (change to another brand) of the physician (BARNES, [1]). Monitoring the prescribing practice of each physician needs a suitable technology for the companies.

All these pieces of informations correspond to individual marketing programs (see *Table 1*) as relationship marketing activity of pharmaceutical companies. In the case of physicians as individual customers, data warehousing and data mining are noted as suitable methods and also the practice of companies supports these methods.

3.2. *Hospitals as Customers*

For the investigation of the relationship with hospitals I highlight the topic under the circumstances of Hungary.

In the case of hospitals the performance of relationship marketing is measurable directly through the drug procurement of the institution. According to the marketing theory, customer relationships are to a large extent determined by the buying behaviour of the customers to a large extent (FORD, [6]).

Generally, the relationship between drug producers and hospitals is effected by the followings:

1. Hospitals have a key role in the drug development process, taking part in the clinical trials of new drugs and in other tests.
2. Hospitals considered to be the place of the introduction stage of drugs' life cycle, so the success of a new drug in the total pharmaceutical market will be effected much by the sales toward hospitals.
3. Pharmaceutical sales in pharmacies are often induced by the hospitals in the case of prescription drugs, since family doctors usually prescribe the brand, which was taken by the patient during his/her therapy in the hospital.
4. In case of physicians who work in hospitals and have special surgery hours, their prescription behaviour is influenced by the selection of drugs in the hospital.
5. Since the opinion leaders work in hospitals, hospitals are suitable for image building of a medicine or a producer.
6. Postmarketing studies (analysis with the medicine after a certain period it was launched into the market, for example in order to reveal the incidental side effect) take place also in the hospitals whereby the awareness of the brand can be sustainable and the sales may increase.

Looking at the statements above, hospitals considered to be a strategic market for drug producers. Compared to this strategic role, regarding the sales volume in hospitals and in pharmacies in Hungary, it can be established, that only 15% of the sales go to the hospitals (MAGYOSZ).

Since in Hungary the hospitals purchase 80% of their drug consumption from wholesalers and only 20% directly from the drug producers, the relationship between hospitals and wholesalers also needs to be investigated. The relationship between the hospitals and the wholesalers is determined by the followings (SZABÓ, [13]):

1. In the hospitals the selection of drugs is wider than in the pharmacies.
2. The drugs used in hospitals are more expensive.
3. The shipping cost is lower in the hospitals.
4. Forecasting the sales in hospitals is unsure.
5. Hospitals have lower buying power than pharmacies do.

These characteristics of hospitals lead to a relatively unstable market for pharmaceutical wholesalers. *Fig. 2* presents the relationships in the hospital market.

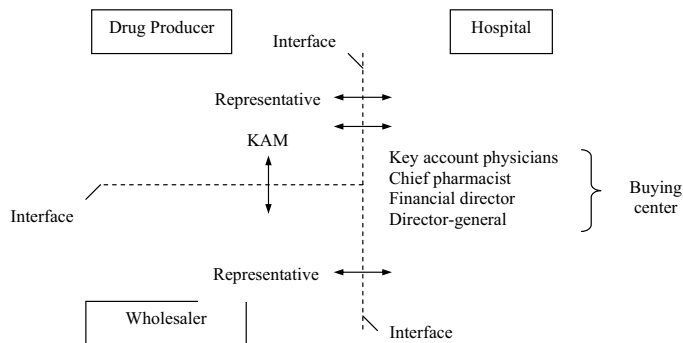


Fig. 2. Buyer-seller relationships in the hospital market – the Hungarian case

Buyers and sellers are active participants of the relationship. Reverse marketing (when the buyer sets up the purchasing conditions) often occurs in this market, in most cases the price conditions are in the focus: hospitals try to cut prices because of their low budget. Considering the order routines, weekly or daily orders are widespread, depending on the urgent need of medicines or the shipping contract. As a feedback to the marketing theories, these characteristics of the pharmaceutical relationships make the interaction approach adaptable to the further analysis of this special market.

In case of the hospital market key account management is used as a relationship marketing program which refers to the data presented in *Table 1*. The constitution of the buying center depends among others on the organization specific factors and personal characteristics. Accordingly, hospitals should be taken into account as customers with individual needs, and mass customization is the suitable marketing strategy toward hospitals.

4. Drug Purchase of Hospitals in Hungary – an Empirical Study

The survey introduced here is a part of a study made for my PhD work. Only the research results are presented here, which are in close relation with the topic of this paper. The results are applied to (1) the influencing factors concerning hospitals' drug procurement, to (2) the evaluation of the relationships with the suppliers, to (3) the information sources of a new drug, to (4) the motivation for tryout and use of new drugs.

The survey was conducted in Nov – Dec 2002 among the hospitals in Hungary. The research method was mail questionnaire, the sample contained 152 hospitals. Finally, 65 chief pharmacists and 48 lead physicians took part in the study. The responses were representative concerning geography, ownership and hospital size.

The major results of the survey are presented briefly in the next section

5. Results and Discussion

According to the responses of the chief pharmacists, financial factors – price and discounts – are the most convincing at the drug procurement. At the third place, the physician's influence in the decision process was marked (*Fig. 3*). The influencing effect of the producers' promotion on drug procurement brought the most heterogeneous results, the same number of respondents indicated this factor as important, or not important and less important factor.

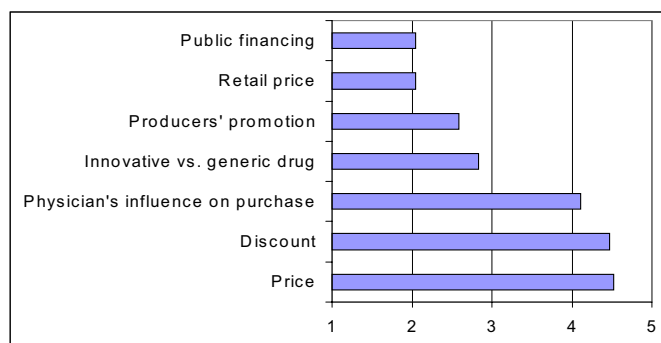


Fig. 3. Influencing factors of drug purchase determined by the chief pharmacist (on scale 1-5)

In each hospital the chief pharmacist was asked to evaluate the relationship with the major drug supplier (in most of the cases they are wholesalers). The results are shown in *Fig. 4*. More than a half of the respondents gave 5 (on a scale 1-5, where 5 means the most adequate characteristic) for trust and stability in the relationship.

These two factors are the ones which occur the most often in the relationship marketing literature as determining elements in the business relationships. The role of former experiences and the continuity were also significant characteristics of the relationship. The respondents gave very distinct opinions about the role of personal bonds in the relationship. As many pharmacists valued this factor not typical at all as typical, and the modus were around 3. Concerning the total satisfaction, most of the respondents were satisfied with the drug suppliers.

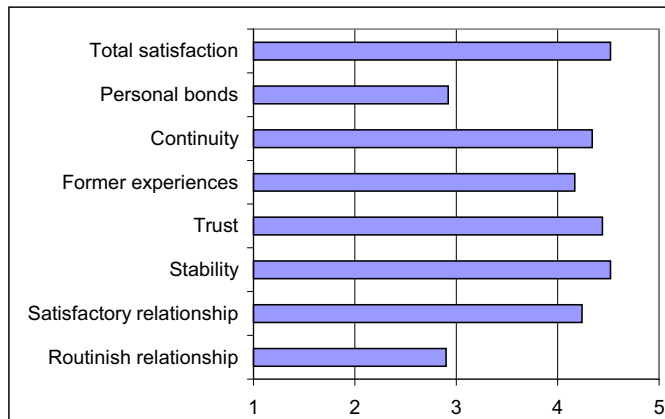


Fig. 4. Evaluation of the relationship with the major supplier by the chief pharmacist (on scale 1-5)

Investigating the information sources of new – innovative¹ and generics² – drugs, most of the pharmacists and the physicians indicated the producer's representatives (Table 2 and Table 3). In case of generics direct mail was mentioned several times, and the role of the pharmacist can be established in informing the physician about the generic drugs.

Most of the asked physicians (36 out of 41) are willing to try out new drugs because they read about them in the literature. The majority of the respondents (23 physicians) found it mostly motivating if the drug has new therapeutic advantage over others. On average (2,95) the physicians valued least of all the producers' promotion in the motivation (Fig. 5).

According to the study, the higher effectiveness of a new drug is the primary factor for applying a new drug in the therapy (Fig. 6). 24 out of 34 physicians think that producer's reputation is moderately important or preferably not important when he/she changes to a new drug.

¹Innovative drugs are produced for the first time, they are patent protected.

²Generics drugs are the medicines which are produced after the patent expires.

Table 2. Information source of new innovative drugs

Pharmacist (number of mention)		Physician (number of mention)	
Producer's representative	61	Producer's representative	32
Literature	45	Literature	33
Conference	34	Conference	22
Direct mail	31	Direct mail	13
Wholesaler's representative	8	Pharmacist	8
Physician	3	Colleagues	6
Internet	2	Drug database	1
Postgraduate course	1		
Electronic database	1		

Table 3. Information source of new generic drugs

Pharmacist (number of mention)		Physician (number of mention)	
Producer's representative	61	Producer's representative	37
Literature	33	Literature	10
Conference	23	Conference	9
Direct mail	40	Direct mail	18
Wholesaler's representative	7	Pharmacist	15
Physician	1	Colleagues	3
Internet	1	Drug database	1
Electronic database	1		

6. Summary

The paper is dealing with the investigation of relationship marketing in the pharmaceutical industry focusing on the relationship with hospitals. It introduces the new challenges of pharmaceutical marketing and the major aspects of relationship marketing theories particularly on the basis of the work of the IMP Group.

It reports about the relationships in the Hungarian hospital market, and lists the determining factors of these relationships. Comparing the theoretical models with the buyer-seller relationship in the pharmaceutical industry, interactions can be identified between the drug suppliers and the hospitals. Toward physicians, key account management model is proved as essential.

The paper briefly introduces a survey about drug procurement of hospitals in Hungary. It emphasizes the dominant role of price and discounts as influencing factors. The survey also supports the importance of drug producers' representatives in informing the physicians and pharmacists – the two major participants in the

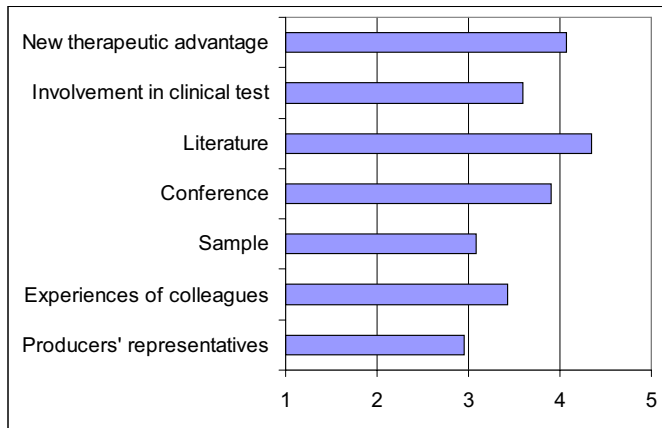


Fig. 5. Source of motivation to try out new drugs (on scale 1-5)

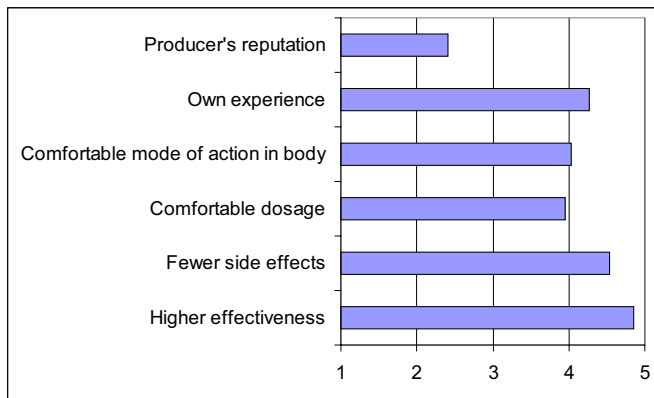


Fig. 6. Motive of regular usage of new drugs (on scale 1-5)

buying center – about new drugs. In spite of this, the results show that the physicians minimize the role of the representative in the tryout of new drug. Due to the small number of cases in the survey the results can not be generalized, but they indicate somehow the motive for trying out and applying new drugs. According to the chief pharmacists the need of hospitals for drugs in Hungary is basically fulfilled, the relationship with the major supplier can be characterized with stability and trust.

The study can be considered as a start up to similar investigations, since the hospital market is a quite neglected area of the pharmaceutical marketing literature.

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